Bulkowski’s Trading Quiz

What chart patterns can you find? A hint appears below and answers on the next page.

**Hint.** Look for the following chart patterns: triple bottom, head-and-shoulders, scallop, 2 triangles, broadening pattern.
The head-and-shoulders appears as LS, head and RS. The triple bottom as 1, 2, and 3, marking the bottoms. Price has broken out of the triple bottom/ascending broadening pattern.

**Question 1:** Do you buy, short, or avoid trading this stock?
**Question 2:** If trading this one, what is the target price?
**Question 3:** If trading this one, what is the stop price?

The answers appear on the next few pages.
Here’s my notebook entry for the trade.

“Date: 6/28/04
Filled at: 31.25
Stop: 28.37 placed 6/28/04
Upside target: 38.94, score of 0.
Mood (will trade work? Bought too soon?): Not as confident as price dropped after I bought. I feel like I'm trading too often. Everything I buy is going up and that means a crash is coming. I'm overtrading just because I feel so good doing it.
S&P direction over pattern lifetime: Lower but just barely
Future market direction (guess): flat to down. S&P is reaching old highs and I expect overhead resistance to an upward move. If it does punch through, the rise might be swift.
Buy reason: Triple bottom at yearly high with upside breakout. Strong base below. Other diversified chemicals are trending higher. I expect this to continue moving up.”

I scored the triple bottom using my Trading Classic Chart Patterns book methodology. The score was 0 meaning the trade was neutral. Scores above 0 tend to meet or exceed the median rise; those below 0 tend to do poorly. When it’s 0, it’s a toss up as to whether the trade should be taken or not.

**Answer 3 (stop?):** I placed the stop at 28.37, as I show in red on the chart. It’s an odd number to be beneath round number support zones (like 28.50) and it’s below the nearest minor low.

If you look at the chart, you’ll see all green on the volume spikes for the last 5 days in a row. How much longer would price continue moving up? My handy dandy home brew program says that there’s just a 2% chance of price closing higher for a sixth day. That should have served as a warning, but I missed it.
**Answer 2:** I placed the target at 38.94. That’s the triple top high multiplied by the median rise of 26.65% I found for stocks with scores above 0.

**Answer 1:** I bought the stock.

“6/30/04 Stop raised to 29.51”

The stock closed higher the next day and the day after that, too, even though the price range narrowed. It formed what’s called a shark-32 pattern. Think of it as a small symmetrical triangle. I raised the stop on the day of the last price bar to the level shown above by the red line.

See the next page for more fun.
Price has dropped from the buy date.

**Question:** Do you make any changes? My answer appears on the next page.
Here’s my notebook entry for the sale.

“Date: 7/22/04
Filled at: 29.50
Mood (sell too soon?): No.
Sell reason: stopped out.”

The stock hit my stop and sold exactly at the intraday low. As you can see, I sold at the bottom and price took off. This happens sometimes. By raising the stop, I narrowed the potential loss from 9.2% to 5.8%. As you can see, the stock met the predicted price rise of 38.94, suggested by the scoring system. If I sold at the price target the system suggested, I would have made almost 25%. If I sold it at the very peak, I would have made 30%.

The end